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SUBJECT: RUSNANO'S CHUBAYS SEEKS "NEW LEVEL" OF BILATERAL  
ECONOMIC RELATIONS

REF: 2008 MOSCOW 2909

Classified By: Ambassador John R. Beyrle for reasons 1.4 (b) and (d).

11. (C) Summary: In an April 2 meeting with the Ambassador, Rusnanotech head Anatoliy Chubays spoke optimistically of a "new window of possibility in bilateral economic relations" that he intends to cultivate during his upcoming May visit to the U.S. Goals for the trip will include learning more about the U.S. innovation economy, tapping into the large Russian-speaking diaspora, and building political support for increased U.S.-Russian cooperation on science and business. Chubays discussed his firm's hardships in securing government and private funding during the economic crisis, while also lamenting that he has "a lot of money, but few projects." With the economic crisis leading to increased social disquiet, Chubays concluded that he preferred the status quo to the prospect of "bloody consequences" should the current authoritarianism give way to totalitarianism. End Summary.

12. (C) In an April 2 meeting with the Ambassador, Rusnano head Anatoliy Chubays spoke optimistically of a "new window of possibility in bilateral economic relations" that he intends to cultivate during his upcoming May travels to the U.S. Rather than simply seek signatures on new deals, Chubays announced his hope that politicians in both countries will build a new way of looking at relations. Accompanying Chubays in the meeting were Aleksandr Losyukov (Deputy Director General for International Cooperation and a former Deputy FM); Vladislav Chernov; and longtime advisor Leonid Gozman (who also co-chairs the new Right Cause party).

U.S. Trip Aims To Raise Relations, Engage Diaspora  
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13. (C) Chubays described grand ambitions for his May 2-9 visit to the U.S., which he hoped will increase cooperation and further illuminate for Russia how an innovation economy works. Citing the "colossal potential" of working with the U.S. in nanotechnology and other fields, Chubays declared that his overall goal is to bring U.S.-Russian economic relations to "a new level." "All the pre-conditions are there," he observed.

14. (C) Chubays and his 17-member delegation will head first to Houston for the 12th Nanotech Conference and Expo (May 3-5); to Silicon Valley for meetings May 6-7 with the nanotech and business community; and finally to Washington on May 8. Thanking the Embassy and Washington for assistance in arranging meetings, Chubays added that a few high-level meetings (VP Biden, National Economic Council head Larry Summers, and Science Advisor/OSTP head John Holdren) had not been confirmed yet.

Increasing Cooperation With the U.S., Israel, and Others  
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15. (C) Despite Russia's inexperience with an innovation economy, Chubays declared that "now is the time to develop it" through dedicated public funding and broader cooperation with the U.S. and other partners. Chubays pointed to a Rusnano non-paper as a first step toward increased cooperation with the USG, which the Ambassador responded was under review in Washington. (Note: Embassy EST e-mailed the non-paper to the Desk March 31.) Ambassador concurred that such an agreement would offer a "symbol of cooperation" to hasten the meshing of science and business, but he cautioned that there is no USG equivalent to Rusnano to sign a cooperation agreement.

16. (C) To expand U.S.-Russian cooperation during his visit, Chubays described plans to reach out to the Russian diaspora in the U.S. as a "key asset." The diaspora is substantial, Chubays remarked with hands stretched wide in emphasis, "and not just in Brighton Beach." As an example, Chubays pointed to the American Business Association of Russian-speaking Professionals (AmBAR), which boasts 2,000 dues-paying members, and - according to Chubays - some 40,000 Russian-speakers in Silicon Valley alone. These Russian-speakers constitute an untapped resource for Russian business, Chubays reasoned, since they understand American business culture, infrastructure, and innovation. The intention is not to lure them back to Russia, but to "build a bridge" for them to identify prototype projects that can be built in Russia. Heaping further praise on U.S. business acumen and education, Chubays boasted that Rusnano employs specialists who have worked in Silicon Valley as well as graduates from Harvard and Stanford.

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17. (C) Before the meeting, Rusnano executives described a recent visit to Finland ("the best organized scientific program") and an upcoming trip to Canada that they hoped would lead to broader international cooperation. Rusnano also aspires to develop deeper cooperation with Israel, tapping into a Russian-speaking diaspora that Chubays calculated as constituting two-thirds of Israeli nanotechnology workers. Chubays acknowledged, however, that such nanotechnology cooperation with Israel would be impossible without USG approval.

"A New Logic" to Secure Reliable Public Financing  
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18. (C) Turning to accounting matters, Chubays confirmed that the GOR had endowed Rusnano's coffers to the tune of 135 billion rubles (about USD 4 billion); however, the economic crisis forced Chubays to give 85 billion rubles (USD 2.5 billion) back to the state budget to cover the 2008 deficit, with the condition that it would be returned. (Note: Rusnano contacts also have told us separately that they expect employee salary cuts this year.) Perhaps unconvinced that Rusnano will see that money again, Chubays revealed details of a proposal he made to Finance Minister Kudrin for "a new logic" of financing that would secure reliable funding and return the 85 billion rubles to Rusnano in installments. According to the proposed plan, Rusnano would receive 40-50 billion rubles (about USD 1.2-1.5 billion) per year until 2014. Chubays claimed that Kudrin and First DPM Sergey Ivanov were on board, with the next step to win PM Putin's support. An additional step to ensure funding would be to re-invest the firm's earnings into future projects.

Overcoming Soviet Legacies To Find Private Investment  
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19. (C) Chubays lamented that "we have a lot of money, but few projects" to spend it on because of difficulties in securing private Russian investment in nanotechnology. To overcome a Soviet-era framework that separated innovation from market demands, Rusnano intends to "build a bridge" between the two by attracting private investment and partners "so the market

determines what to produce, not us." Chubays outlined a goal to bring in USD 30 billion by 2015, but he later acknowledged that the economic crisis has made finding investment funding increasingly difficult.

¶10. (C) Bemoaning the difficulties of reversing a Soviet mindset unaccustomed to linking science and business, Chubays griped that oligarchs remained particularly skeptical of investing in nanotechnology. However, he noted, many oligarchs have changed their minds after learning the quantitative benefits -- for example, that steel is five times stronger when made with nanotechnologies. Aviation is another field that Chubays warned would wither without private nanotechnology investment by Russians. Whereas Boeing DreamLiner aircraft are made with 55-60 percent nano-composite materials, Sukhoi aircraft comprise just 5 percent. To keep Sukhoi competitive, Chubays explained, a company is being created to make nano-composite materials for its new aircraft. Other fields that will benefit from nanotechnology investment will be lighting and solar energy systems.

¶11. (C) When Ambassador suggested that there has been no stimulus in energy-rich Russia to encourage private investment in nanotechnologies, Chubays agreed and pointed to "monstrous energy inefficiencies" across the entire spectrum from housing to industry to energy production. Speaking authoritatively as the former head of the state electricity monopoly, Chubays concluded tersely that energy prices have never been at market levels and therefore little incentive exists to curb its waste through innovation and alternative energy sources.

In Crisis, Status Quo Preferred To "Bloody Consequences"

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¶12. (C) Speaking about the economic crisis, Chubays disagreed with First DPM Shuvalov's optimism that the worst had passed. Full recovery within a year is too optimistic, but recovery in two years is "almost guaranteed." The Russian economic future will be 100 percent clear, Chubays sighed, only after the U.S. has fixed its own problems.

¶13. (C) Chubays also acknowledged that the crisis had led to increased social problems, but he backpedaled from a comment he made in a January interview in which he put the odds of the political system surviving at "50-50." Contemplating

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various outcomes for the deepening social distress, he ominously predicted that there "could be bloody consequences" if factions attempt to exploit the crisis to hasten political change. "Crisis cannot be the engine for democracy and pluralism; it is not realistic." For this reason, he concluded, democratic opposition leaders such as Garry Kasparov are misguided in their hope for widespread unrest because "the alternative to the current authoritarianism" is not democracy but totalitarianism. Therefore, Chubays reasoned, it is better to embrace the status quo, "with all its weaknesses." One "safe" alternative he suggested was the Kremlin-friendly and pro-business Right Cause party, created in part by Chubays in 2008 and co-chaired by top Chubays advisor Leonid Gozman (reftel). "The democrats call us collaborators" for working with the Kremlin, Chubays noted, but working with the Kremlin was the safest way to establish a new political party. (Note: Right Cause's internal rifts are notoriously manifold, and its leadership has proven incapable of developing a united platform. In the elevator after the meeting, Gozman responded to a question about Right Cause's upcoming April 3-4 Moscow conference by quickly dismissing it as "a waste of time" that would be dominated by "chatterboxes." End Note.)

¶14. (C) On the April 1 meeting in London between Presidents Obama and Medvedev, Chubays cheered on Medvedev's performance and lauded what he called Medvedev's "rise" during and after

the meeting.

Comment

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¶15. (C) Chubays remained upbeat throughout the meeting, even when discussing financial hardships endured by Rosnano and the slashing of public funding during the crisis. His planned outreach to the Russian diaspora confirmed Russia's shortage of home-grown expertise, and his ambitious May itinerary (which includes meetings with venture capital firms and companies such as Intel) confirmed his intention to duplicate U.S. innovation economy methods as much as possible. The "new level" of economic cooperation that Chubays described, with economic and scientific benefits to both sides of the bilateral relationship, would represent a significant advancing of U.S.-Russian trade and ties.  
BEYRLE